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May 23, 2006

HAND DELIVERED

Beth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

MAY 23 2006

PUBLIC SERVICE
COMMISSION

Judith A. Villines
(502) 209-1230
(502) 223-4389 FAX
jvillines@stites.com

RE: Kentucky Power Company
PSC Case No. 2006-00128

Dear Ms. O'Donnell:

Pursuant to the Commission's Order dated April 25, 2006, please find enclosed the original and nine (9) copies of Kentucky Power Company's Direct Testimony of Errol K. Wagner and the Responses to the First Data Requests of Commission Staff to Kentucky Power Company.

If you have any questions, please feel free to contact me.

Sincerely,

STITES & HARBISON, PLLC



Judith A. Villines

JAV:pjt

Enclosures

cc: Counsel of Record
Errol K. Wagner

KE057:KE113:14169:1:FRANKFORT

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAY 23 2006

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY)
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING DECEMBER 31, 2002,) CASE NO. 2006-00128
DECEMBER 31, 2003, JUNE 30, 2004,)
DECEMBER 31, 2004, AND DECEMBER 31, 2005,)
AND FOR THE TWO-YEAR BILLING PERIODS)
ENDING JUNE 30, 2003 AND JUNE 30, 2005)

**PETITION FOR CONFIDENTIAL TREATMENT
(FIRST DATA REQUEST OF THE COMMISSION STAFF)**

Kentucky Power Company moves the Commission pursuant to 807 KAR 5:001, Section 7 and KRS 61.878(1)(c)(1) for an Order granting confidential treatment of the information described below. In support thereof, Kentucky Power states:

MOTION FOR CONFIDENTIAL TREATMENT

Introduction

1. In this proceeding the Commission is examining Kentucky Power's environmental surcharge mechanism for certain six-month and two-year periods between 2002 and 2005.
2. Kentucky Power, a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"), is a private, for profit, corporation. It is not a public agency. It is regulated by the Commission pursuant to the provisions of Chapter 278 of the Kentucky Revised Statutes.

3. Certain of the Commission's Data Requests seek proprietary and confidential information that is not publicly available and that if were made publicly available could be used to the competitive commercial advantage of Kentucky Power's competitors and the competitive commercial disadvantage of Kentucky Power.

4. Specifically, Data Request No. 17(b) requests the following from Kentucky Power:

Provide the following information concerning Kentucky Power's inventories of SO₂ and NO_x emission allowances:

- b. For each year in the period 2006 through 2016,
- (1) Indicate the number of emission allowances allocated or expected to be allocated by the Environmental Protection Agency for the Big Sandy generating units.
 - (2) Indicate the number of emission allowances estimated to be allocated to Kentucky Power under the Interim Allowance Agreement or other allocation mechanism.
 - (3) Indicate the number of emission allowances Kentucky Power estimates it will utilize in conjunction with the operation of the Big Sandy generating units. Reflect the changes resulting from the adoption of the Clean Air Interstate Rule.
 - (4) If available, indicate any other estimated additions or withdrawals of emission allowances from the Kentucky Power inventories of emission allowances. Include a description of the type of addition or withdrawal.

5. Similarly, Data Request No. 18 provides as follows:

Through the end of 2016, does Kentucky Power plan on achieving SO₂ and NO_x emission limit compliance for the Big Sandy generating units only through the operation of currently in service emission control equipment and the consumption of emission allowances? If no, describe Kentucky Power's current plans for SO₂ and NO_x emission limit compliance at Big Sandy through the end of 2006.

6. Responding to these Data Requests requires Kentucky Power to divulge confidential and proprietary information that, if made public, would be harmful to both Kentucky Power and its customers.

Basis for Confidential Treatment

7. KRS 61.878(1)(c)(1) excludes from the Open Records Act “records confidentially disclosed to an agency, generally recognized as confidential or proprietary, which if openly disclosed would present an unfair commercial advantage to competitors of the entity that disclosed the records.”

A. The Information is Generally Recognized as Confidential and Proprietary And is being Provided in Connection with the Regulation of Commercial Enterprises

8. The information for which confidential treatment is being sought is being filed by Kentucky Power in response to Data Requests propounded by the Commission Staff in this proceeding. This proceeding is being maintained by the Commission in connection with its statutory duties under Chapter 278 of the Kentucky Revised Statutes.

9. The information for which confidential treatment is sought is generally recognized as being confidential and proprietary. *See Hoy v. Kentucky Industrial Revitalization Authority*, 907 S.W.2d 766, 768 (Ky. 1995) (“It does not take a degree in finance to recognize that such information concerning the inner workings of a corporation ‘is generally recognized as confidential or proprietary’ and falls within the wording of KRS 61.878(1)(c)(2).”). The requests call for information that is highly confidential and maintenance of the confidentiality is critical to Kentucky Power’s ability to provide competitive products and services. Dissemination of the requested information is restricted by Kentucky Power and Kentucky Power takes all reasonable

measures to prevent its disclosure to the public as well as persons within the company who do not have a need for the information.

B. Disclosure of the Information will be Harmful to Kentucky Power and Its Customers

10. Disclosure of the confidential information will result in a significant, non-trivial, unfair commercial disadvantage for Kentucky Power. *Southeastern United Medigroup, Inc. v. Hughes*, 952 S.W.2d 195, 199 (Ky. App. 1997). In particular, disclosure of the forecasted information sought in Data Request Numbers 17(b) and 18 would provide the allowance market with information about Kentucky Power's position (i.e., surplus or deficit) going forward for many years. The disclosure of this information will have an adverse impact on Kentucky Power's ability to operate in the allowance market, causing harm not only to Kentucky Power, but also its customers. At the same time, other participants in the market will benefit from the knowledge of Kentucky Power's position. Clearly, Kentucky Power's competitors will be placed at a competitive advantage and Kentucky Power placed at a competitive disadvantage through the disclosure of this confidential and proprietary information.

Wherefore, Kentucky Power respectfully requests the Commission:

1. To grant confidential treatment to the identified responses; and
2. Grant Kentucky Power such further relief as may be appropriate.

Dated: May 23, 2006.

Respectfully submitted;

STITES & HARBISON PLLC



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R. Benjamin Crittenden
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COUNSEL FOR:
KENTUCKY POWER COMPANY

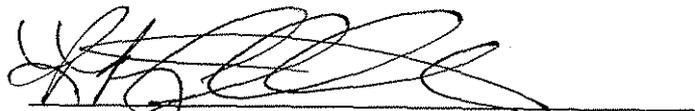
CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served first class mail, postage prepaid upon the following:

Michael L. Kurtz
Boehm, Kurtz & Lowry
Suite 1510
36 East Seventh Street
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Elizabeth E. Blackford
Assistant Attorney General
Suite 200
1024 Capital Center Drive
Frankfort, Kentucky 40601-8204

on this the 23rd day of May, 2006.



R. Benjamin Crittenden

RECEIVED

MAY 23 2006

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

**AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY)
POWER COMPANY FOR THE SIX-MONTH)
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DECEMBER 31, 2004, AND DECEMBER 31, 2005,)
AND FOR THE TWO-YEAR BILLING PERIODS)
ENDING JUNE 30, 2003 AND JUNE 30, 2005)**

CASE NO. 2006-00128

**DIRECT TESTIMONY AND RESPONSES TO COMMISSION STAFF FIRST
SET OF DATA REQUEST**

ON BEHALF OF KENTUCKY POWER COMPANY

May 23, 2006



COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

**AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY)
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING DECEMBER 31, 2002,)
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DECEMBER 31, 2004, AND DECEMBER 31, 2005,)
AND FOR THE TWO-YEAR BILLING PERIODS)
ENDING JUNE 30, 2003 AND JUNE 30, 2005)**

CASE NO. 2006-00128

DIRECT TESTIMONY

OF

ERROL K WAGNER

May 23, 2006

**DIRECT TESTIMONY OF
ERROL K WAGNER, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2006-00128

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**DIRECT TESTIMONY OF
ERROL K WAGNER, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. Introduction

1 Q: Please state your name, position and business address.

2 A: My name is Errol K. Wagner. My position is Director of Regulatory Services,
3 Kentucky Power Company ("Kentucky Power, KPCo or Company"). My business
4 address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

II. Background

5 Q: Please summarize your educational background and business experience.

6 A: I received a Bachelor of Science degree with a major in accounting from
7 Elizabethtown College, Elizabethtown, Pennsylvania in December 1973. I am a
8 Certified Public Accountant. I worked for two certified public accounting firms
9 prior to joining the Pennsylvania Public Utility Commission Staff in 1976. In 1982,
10 I joined the American Electric Power Service Corporation ("AEPSC") as a Rate
11 Case Coordinator. In 1986, I transferred from AEPSC to Kentucky as the Assistant
12 Rates, Tariffs and Special Contracts Director. In July 1987, I assumed my current
13 position.

14 Q: What are your responsibilities as Director of Regulatory Services?

15 A: I supervise and direct the Regulatory Services of the Company, which has the
16 responsibility for rate and regulatory matters affecting Kentucky Power. This
17 includes the preparation of and coordination of the Company's exhibits and

1 testimony in rate cases and any other formal filings before state and federal
2 regulatory bodies. Another responsibility is assuring the proper application of the
3 Company's rates in all classifications of business.

4 Q: To whom do you report?

5 A: I report to the President of Kentucky Power, Mr. Timothy C. Mosher, who is also
6 located in Frankfort, Kentucky.

7 Q: Have you previously testified before this Commission?

8 A: Yes. I have testified before this Commission in numerous regulatory proceedings
9 involving the adjustment in electric base rates, the fuel adjustment clause, the
10 operation of the environmental cost recovery mechanism, approval of certificates of
11 public convenience and necessity and other regulatory matters. I also testified in
12 KPCo's last general adjustment in electric base rates in Case No. 2005-00341.

13 Q: What is your understanding of the purpose of this proceeding?

14 A: The Kentucky Public Service Commission (KPSC) issued its April 25, 2006 Order
15 in Case No. 2006-00128 for the purpose of examining the environmental surcharge
16 mechanism of KPCo for the six-month billing periods ending December 31, 2002,
17 December 31, 2003, June 30, 2004, December 31, 2004, and December 31, 2005
18 and for the two-year billing periods ending June 30, 2003 and June 30, 2005.

19 Q: Has the Company responded to the Staff's eighteen data requests, including sub-
20 parts, in Appendix B to the Commission's April 25, 2006 order in this case?

21 A: Yes.

III. Purpose of Testimony

1 Q: What is the Company's position as to any net amount to be under or over collected
2 from the ratepayers?

3 A: As demonstrated in the Company's response to Item No. 1, page 10 of 10, the
4 Company is in a net under collection position by \$110,756.

IV. Reasons for the Net Under Collection

5 Q: What are the reasons for the net under collections?

6 A: The reasons for the net under collected position relate to three components of the
7 estimated property tax calculation: (1) the installed cost of the environmental
8 facilities; (2) the net book factor and (3) the assessment factor. During some
9 periods, a fluctuating (actual) monthly installed cost was incorrectly used when the
10 installed cost as of the end of the previous year should have been used for purposes
11 of the calculation of the property tax. Additionally, during some periods, the
12 estimated net book factor differed from the actual net book factor, and the estimated
13 assessment factor differed from the actual assessment factor. When the correct
14 installed costs and the actual net book factors and actual assessment factors are used
15 for the property tax calculations, the result is a net under collection. Please
16 reference the Company's response to Item No. 5.

V. Review Period May 2001 through December 2001

17 Q: What were the reasons for the under/over collected position for the time period May
18 2001 through December 2001?

1 A: As demonstrated in the Company's response to Item No. 5, page 7 of 10, the reason
2 for the monthly differences in this review period is the difference in the estimated
3 and actual net book factor. The Company originally estimated a net book factor of
4 0.48495 and the actual net book factor used in the property tax calculation was
5 0.449596. This resulted in an over collection of \$69 per month for the 8 months or a
6 total over collection for this eight month review period of \$552 (\$69 X 8).

VI. Review Period January 2002 through December 2002

7 Q: What were the reasons for the under/over collected position for the time period
8 January 2002 through December 2002?

9 A: As demonstrated in the Company's response to Item No. 5, pages 7 and 8 of 10, the
10 reasons for the monthly differences in this review period are: (1) the differences in
11 the estimated and actual net book factors and (2) the differences in the estimated
12 and actual assessment factors. The Company originally estimated a net book factor
13 of 0.48495 for January, 2002 through April, 2002 and 0.50987 for May, 2002
14 through December, 2002. The actual net book factor used in the property tax
15 calculation was 0.415918. Also, the Company originally estimated the assessment
16 factor at 0.9822432 for the months January, 2002 through April, 2002 and
17 0.9945253 for the months May 2002 through December 2002. The actual
18 assessment factor used in calculating the property tax was 0.9945253. This resulted
19 in a total over collection of \$2,232 for the 12 months.

20

VII. Review Period January 2003 through December 2003

1 Q: What were the reasons for the under/over collected position for the time period
2 January 2003 through December 2003?

3 A: As demonstrated in the Company's response to Item No. 5, pages 8 and 9 of 10, the
4 reasons for the monthly differences in this review period are: (1) the correction of
5 the installed cost used for property tax purposes, (2) the differences in the estimated
6 and actual monthly net book factors for January through December and (3) the
7 difference in the estimated and actual assessment factors in the monthly calculations
8 for January. The following table illustrates the differences in the installed cost
9 values used and the correct installed cost value for purposes of the property tax
10 calculation:

11

Month	Amount Originally Used in Property Tax Calculation	Correct Amount for Property Tax Calculation
January	\$15,916,876	\$15,916,876
February	\$15,916,876	\$15,916,876
March	\$31,294,167	\$15,916,876
April	\$31,562,607	\$15,916,876
May	\$165,953,603	\$15,916,876
June	\$184,693,776	\$15,916,876
July	\$188,475,450	\$15,916,876
August	\$189,004,897	\$15,916,876
September	\$189,618,301	\$15,916,876
October	\$183,915,212	\$15,916,876
November	\$187,354,314	\$15,916,876
December	\$187,009,776	\$15,916,876

12

13 Because the installed cost used in calculating the property tax for the calendar year
14 2003 is based on the installed cost at December 31, 2002, the correct installed cost

1 for calculating calendar year 2003 property tax was \$15,916,876. Also, both the
2 estimated net book factor and the estimated assessment factor used in the
3 calculation of the environmental monthly filing should have been 0.391037 and
4 0.8961572 respectively. This resulted in a total over collection of \$83,482 for the 12
5 months.

VIII. Review Period January 2004 through December 2004

6 Q: What were the reasons for the under/over collected position for the time period
7 January 2004 through December 2004?

8 A: As demonstrated in the Company's response to Item No. 5, pages 9 and 10 of 10,
9 the reasons for the monthly differences in this review period are: (1) the correction
10 of the installed cost used for property tax purposes, (2) the differences in the
11 estimated and actual monthly net book factors for January through December and
12 (3) the difference in the estimated and actual assessment factors in the monthly
13 calculations for January. The following table illustrates the differences in the
14 installed cost values used and the correct installed cost value for purposes of the
15 property tax calculation:
16

1

Month	Amount Originally Used in Property Tax Calculation	Correct Amount for Property Tax Calculation
January	\$187,189,333	\$187,009,776
February	\$188,011,605	\$187,009,776
March	\$186,941,262	\$187,009,776
April	\$187,048,029	\$187,009,776
May	\$187,096,973	\$187,009,776
June	\$187,226,105	\$187,009,776
July	\$187,150,342	\$187,009,776
August	\$187,275,443	\$187,009,776
September	\$187,496,762	\$187,009,776
October	\$187,496,762	\$187,009,776
November	\$187,496,762	\$187,009,776
December	\$187,496,762	\$187,009,776

2

3 Because the installed cost used in calculating the property tax for the calendar year
4 2004 is based on the installed cost at December 31, 2003, the correct installed cost
5 for calculating calendar year 2004 property tax was \$187,009,776. Also, both the
6 estimated net book factor and the estimated assessment factor used in the calendar
7 year 2004's environmental monthly filing should have been 0.678151 and 0.9071
8 respectively. This resulted in a total under collection of \$79,127 for the 12 months.

9 **IX. Review Period January 2005 through December 2005**

10 Q: What were the reasons for the under/over collected position for the time period
11 January 2004 through December 2004?

12 A: As demonstrated in the Company's response to Item No. 5, page 10 of 10, the
13 reasons for the monthly differences in this review period are: (1) the correction of
14 the installed cost used for property tax purposes, (2) the differences in the estimated
15 and actual monthly net book factors for January through December and (3) the

1 differences in the estimated and actual assessment factors in the monthly
 2 calculations for January through December. The following table illustrates the
 3 differences in the installed cost values used and the correct installed cost value for
 4 purposes of the property tax calculation:

Month	Amount Originally Used in Property Tax Calculation	Correct Amount for Property Tax Calculation
January	\$187,496,762	\$184,496,762
February	\$189,034,829	\$184,496,762
March	\$189,039,418	\$184,496,762
April	\$189,039,418	\$184,496,762
May	\$189,140,122	\$184,496,762
June	\$189,168,203	\$184,496,762
July	\$189,168,203	\$184,496,762
August	\$189,168,206	\$184,496,762
September	\$190,656,197	\$184,496,762
October	\$190,656,197	\$184,496,762
November	\$190,656,197	\$184,496,762
December	\$190,656,197	\$184,496,762

6
 7 Because the installed cost used in calculating the property tax for the calendar year
 8 2005 is based on the installed cost at December 31, 2004, the correct installed cost
 9 for calculating calendar year 2005 property tax was \$187,496,762. Also, both the
 10 estimated net book factor and the estimated assessment factor used in the calendar
 11 year 2005's environmental monthly filing should have been 0.659097 and 0.979188
 12 respectively. This resulted in a total under collection of \$117,895 for the 12 months.

VIII. Conclusion

- 1 Q: What is the net over/under position the Company calculates at December 31, 2005?
- 2 A: The Company's net under collection for this review is \$110,756 as demonstrated in
- 3 the Company's response to both Items No. 1 and 5.
- 4 Q: Does that conclude your pre-filed direct testimony?
- 5 A: Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

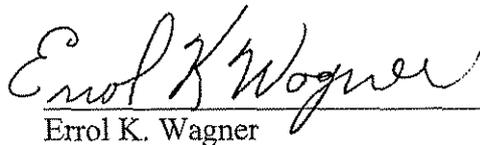
COMMONWEALTH OF KENTUCKY

CASE NO. 2006-00128

COUNTY OF FRANKLIN

AFFIDAVIT

Errol K. Wagner, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.


Errol K. Wagner

Subscribed and sworn to before me by Errol K. Wagner this 23rd day of May, 2006.


Notary Public

My Commission Expires January 14, 2009

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

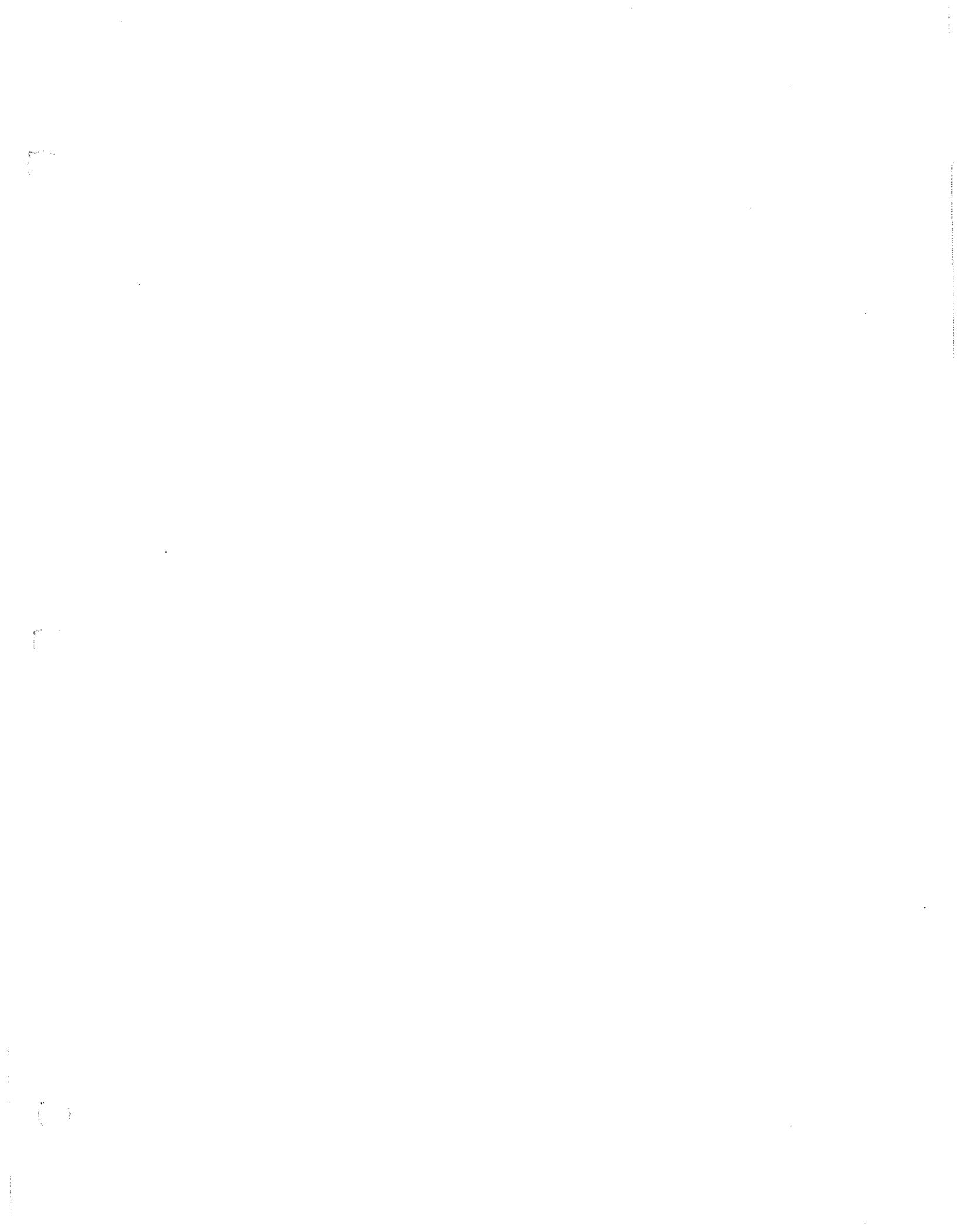
IN THE MATTER OF

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ENDING JUNE 30, 2003 AND JUNE 30, 2005)**

CASE NO. 2006-00128

**KENTUCKY POWER COMPANY RESPONSES TO
COMMISSION STAFF FIRST SET OF DATA REQUEST**

May 23, 2006



Kentucky Power Company

REQUEST

Prepare a summary schedule showing the calculation of $E(m)$ and the surcharge factor for the expense months covered by the applicable billing period. Use ES Form 1.0 as a model for this summary. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under- recovery adjustments for the months included for the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for each 6-month review or 2-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

RESPONSE

A summary schedule showing the calculation of $E(m)$ and the surcharge factor for the expense months covered by the applicable billing period is attached. (Please see Pages 2 to 10).

WITNESS: Errol K Wagner

ES FORM 1.00
 KENTUCKY POWER COMPANY
 ENVIRONMENTAL SURCHARGE REPORT
 CALCULATION OF E(m) AND SURCHARGE FACTOR
 For the Expense Month of -

Line No	Description	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002	Total
1	CRR from ES FORM 3.00	\$510,015	\$295,522	\$394,016	(\$94,887)	\$692,418	\$640,522	
2	Brr from ES Form 2.00	\$10,899	\$10,899	\$10,899	\$10,899	\$10,899	\$10,899	
3	E(m) (Line 1 - Line 2)	\$499,116	\$284,623	\$383,117	(\$105,786)	\$681,519	\$629,623	
	Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of Revenues,							
4	Line 1	79.7%	84.2%	77.1%	71.9%	69.6%	65.7%	
5	KY Retail E(m) (Line 3 * Line 4)	\$397,795	\$239,653	\$295,383	(\$76,060)	\$474,337	\$413,662	
6	Over/(Under) Recovery Adjustment from ES FORM 3.30	(\$137,509)	\$34,804	\$46,475	\$35,323	\$65,300	(\$4,501)	
7A	January 2004 ES FORM 3.10 - Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	
7B	Net KY Retail E(m) (Line 5 + Line 6)	\$260,286	\$274,457	\$341,858	(\$40,737)	\$539,637	\$409,161	
8	Net KY Retail E(m) (Line 7)	\$260,286	\$274,457	\$341,858	(\$40,737)	\$539,637	\$409,161	
9	KY Retail R(m) from ES FORM 3.30	\$29,576,140	\$26,106,850	\$24,391,749	\$22,631,317	\$19,711,735	\$19,899,717	
10	Environmental Surcharge Factor for Expense Month (Line 8 / Line 9)	0.8801%	1.0513%	1.4015%	-0.1800%	2.7376%	2.0561%	
11	Revised Net KY Retail E(m) (Line 7B)	\$260,161	\$274,332	\$341,733	(\$40,862)	\$539,207	\$408,975	
12	Over/(Under) Recovery (Line 11 - Line 8)	(\$125)	(\$125)	(\$125)	(\$125)	(\$430)	(\$186)	(\$1,116)
	Detail of Line 12							
13	Monthly Property Taxes	(\$125)	(\$125)	(\$125)	(\$125)	(\$430)	(\$186)	(\$1,116)
14	Total Under/(Over) Recovery	(\$125)	(\$125)	(\$125)	(\$125)	(\$430)	(\$186)	(\$1,116)

ES FORM 1.00
 KENTUCKY POWER COMPANY
 ENVIRONMENTAL SURCHARGE REPORT
 CALCULATION OF E(m) AND SURCHARGE FACTOR
 For the Expense Month of -

Line No	Description	January 2003	February 2003	March 2003	April 2003	May 2003	June 2003	Total
1	CRR from ES FORM 3.00	\$786,206	\$707,456	\$340,215	\$1,295,071	\$2,012,841	\$2,327,340	
2	Brr from ES Form 2.00	\$10,899	\$10,899	\$15,785	\$15,785	\$15,785	\$15,785	
3	E(m) (Line 1 - Line 2) Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of Revenues,	\$775,307	\$696,557	\$324,430	\$1,279,286	\$1,997,056	\$2,311,555	
4	Line 1	73.5%	71.1%	62.7%	61.2%	63.0%	64.8%	
5	KY Retail E(m) (Line 3 * Line 4) Over/(Under) Recovery Adjustment from ES FORM 3.30	\$569,851	\$495,252	\$203,418	\$782,923	\$1,258,145	\$1,497,888	
6	FORM 3.30	(\$168,438)	\$152,692	\$23,257	\$182,340	\$60,125	\$99,000	
7A	January 2004 ES FORM 3.10 - Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	
7B	Net KY Retail E(m) (Line 5 + Line 6)	\$401,413	\$647,944	\$226,675	\$965,263	\$1,318,270	\$1,596,888	
8	Net KY Retail E(m) (Line 7)	\$401,413	\$647,944	\$226,675	\$965,263	\$1,318,270	\$1,596,888	
9	KY Retail R(m) from ES FORM 3.30 Environmental Surcharge Factor for Expense Month (Line 8 / Line 9)	\$27,552,945	\$28,868,450	\$25,687,135	\$21,179,632	\$19,173,943	\$19,987,285	
10		1.4569%	2.2445%	0.8824%	4.5575%	6.8753%	7.9895%	
11	Revised Net KY Retail E(m) (Line 7B)	\$401,101	\$648,348	\$225,965	\$964,539	\$1,309,295	\$1,586,598	
12	Over/(Under) Recovery (Line 11 - Line 8)	(\$312)	\$404	(\$710)	(\$724)	(\$8,975)	(\$10,290)	(\$20,607)
13	Detail of Line 12 Monthly Property Taxes	(\$312)	\$404	(\$710)	(\$724)	(\$8,975)	(\$10,290)	(\$20,607)
14	Total Under/(Over) Recovery	(\$312)	\$404	(\$710)	(\$724)	(\$8,975)	(\$10,290)	(\$20,607)

ES FORM 1.00
 KENTUCKY POWER COMPANY
 ENVIRONMENTAL SURCHARGE REPORT
 CALCULATION OF E(m) AND SURCHARGE FACTOR
 For the Expense Month of -

Line No	Description	July 2003	August 2003	September 2003	October 2003	November 2003	December 2003	Total
1	CRR from ES FORM 3.00	\$3,046,045	\$2,903,245	\$2,761,438	\$2,688,213	\$2,706,069	\$1,914,798	
2	Brr from ES Form 2.00	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	
3	E(m) (Line 1 - Line 2)	\$3,030,260	\$2,887,460	\$2,745,653	\$2,672,428	\$2,690,284	\$1,899,013	
	Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of Revenues,							
4	Line 1	64.9%	65.9%	69.4%	68.0%	69.4%	72.6%	
5	KY Retail E(m) (Line 3 * Line 4)	\$1,966,639	\$1,902,836	\$1,905,483	\$1,817,251	\$1,867,057	\$1,378,683	
6	Over/(Under) Recovery Adjustment from ES FORM 3.30	(\$228,817)	(\$146,829)	\$206,597	\$285,836	\$189,621	(\$435,244)	
7A	January 2004 ES FORM 3.10 - Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	
7B	Net KY Retail E(m) (Line 5 + Line 6)	\$1,737,822	\$1,756,007	\$2,112,080	\$2,103,087	\$2,056,678	\$943,439	
8	Net KY Retail E(m) (Line 7)	\$1,737,822	\$1,756,007	\$2,112,080	\$2,103,087	\$2,056,678	\$943,439	
9	KY Retail R(m) from ES FORM 3.30	\$23,998,267	\$23,516,218	\$22,644,139	\$21,071,597	\$22,437,735	\$27,832,680	
10	Environmental Surcharge Factor for Expense Month (Line 8 / Line 9)	7.2414%	7.4672%	9.3273%	9.9807%	9.1662%	3.3897%	
11	Revised Net KY Retail E(m) (Line 7B)	\$1,727,222	\$1,745,355	\$2,101,353	\$2,093,294	\$2,046,041	\$932,973	
12	Over/(Under) Recovery (Line 11 - Line 8)	(\$10,600)	(\$10,652)	(\$10,727)	(\$9,793)	(\$10,637)	(\$10,466)	(\$62,875)
	Detail of Line 12							
13	Monthly Property Taxes	(\$10,600)	(\$10,652)	(\$10,727)	(\$9,793)	(\$10,637)	(\$10,466)	(\$62,875)
14	Total Under/(Over) Recovery	(\$10,600)	(\$10,652)	(\$10,727)	(\$9,793)	(\$10,637)	(\$10,466)	(\$62,875)

ES FORM 1.00
 KENTUCKY POWER COMPANY
 ENVIRONMENTAL SURCHARGE REPORT
 CALCULATION OF E(m) AND SURCHARGE FACTOR
 For the Expense Month of -

Line No	Description	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004	Total
1	CRR from ES FORM 3.00	\$2,547,984	\$2,584,547	\$2,440,992	\$2,381,159	\$2,887,730	\$2,904,217	
2	Brr from ES Form 2.00	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	
3	E(m) (Line 1 - Line 2)	\$2,532,199	\$2,568,762	\$2,425,207	\$2,365,374	\$2,871,945	\$2,888,432	
4	Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of Revenues, Line 1	71.3%	72.0%	73.5%	66.9%	66.5%	62.7%	
5	KY Retail E(m) (Line 3 * Line 4)	\$1,805,458	\$1,849,509	\$1,782,527	\$1,582,435	\$1,909,843	\$1,811,047	
6	Over/(Under) Recovery Adjustment from ES FORM 3.30	(\$562,129)	\$4,932	\$258,354	\$416,955	\$296,309	\$54,408	
7A	January 2004 ES FORM 3.10 - Adjustment	\$0	(\$1,601)	\$0	\$0	\$0	\$0	
7B	Net KY Retail E(m) (Line 5 + Line 6)	\$1,243,329	\$1,852,840	\$2,040,881	\$1,999,390	\$2,206,152	\$1,865,455	
8	Net KY Retail E(m) (Line 7)	\$1,243,329	\$1,852,840	\$2,040,881	\$1,999,390	\$2,206,152	\$1,865,455	
9	KY Retail R(m) from ES FORM 3.30	\$31,010,167	\$28,430,564	\$25,439,420	\$23,432,583	\$23,500,986	\$24,636,706	
10	Environmental Surcharge Factor for Expense Month (Line 8 / Line 9)	4.0094%	6.5171%	8.0225%	8.5325%	9.3875%	7.5719%	
11	Revised Net KY Retail E(m) (Line 7B)	\$1,250,048	\$1,859,402	\$2,047,496	\$2,005,999	\$2,212,758	\$1,872,052	
12	Over/(Under) Recovery (Line 11 - Line 8)	\$6,719	\$6,562	\$6,615	\$6,609	\$6,606	\$6,597	\$39,708
13	Detail of Line 12 Monthly Property Taxes	\$6,719	\$6,562	\$6,615	\$6,609	\$6,606	\$6,597	\$39,708
14	Total Under/(Over) Recovery	\$6,719	\$6,562	\$6,615	\$6,609	\$6,606	\$6,597	\$39,708

ES FORM 1.00
KENTUCKY POWER COMPANY
ENVIRONMENTAL SURCHARGE REPORT
CALCULATION OF E(m) AND SURCHARGE FACTOR
For the Expense Month of -

Line No	Description	July 2004	August 2004	September 2004	October 2004	November 2004	December 2004	Total
1	CRR from ES FORM 3.00	\$2,697,197	\$2,221,868	\$2,701,726	\$2,030,484	\$2,447,031	\$1,256,487	
2	Brr from ES Form 2.00	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	
3	E(m) (Line 1 - Line 2)	\$2,681,412	\$2,206,083	\$2,685,941	\$2,014,699	\$2,431,246	\$1,240,702	
	Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of Revenues,							
4	Line 1	65.2%	66.1%	66.8%	69.7%	66.7%	71.5%	
5	KY Retail E(m) (Line 3 * Line 4)	\$1,748,281	\$1,458,221	\$1,794,209	\$1,404,245	\$1,621,641	\$887,102	
	Over/(Under) Recovery Adjustment from ES							
6	FORM 3.30	(\$94,941)	\$128,631	\$245,826	\$242,579	\$95,130	(\$600,614)	
7A	January 2004 ES FORM 3.10 - Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	
7B	Net KY Retail E(m) (Line 5 + Line 6)	\$1,653,340	\$1,586,852	\$2,040,035	\$1,646,824	\$1,716,771	\$286,488	
8	Net KY Retail E(m) (Line 7)	\$1,653,340	\$1,586,852	\$2,040,035	\$1,646,824	\$1,716,771	\$286,488	
9	KY Retail R(m) from ES FORM 3.30	\$26,765,554	\$24,627,178	\$24,193,765	\$22,117,947	\$25,019,832	\$32,351,686	
	Environmental Surcharge Factor for Expense							
10	Month (Line 8 / Line 9)	6.1771%	6.4435%	8.4321%	7.4456%	6.8616%	0.8855%	
11	Revised Net KY Retail E(m) (Line 7B)	\$1,659,943	\$1,593,457	\$2,046,595	\$1,653,374	\$1,723,322	\$293,038	
12	Over/(Under) Recovery (Line 11 - Line 8)	\$6,603	\$6,605	\$6,560	\$6,550	\$6,551	\$6,550	\$39,419
	Detail of Line 12							
13	Monthly Property Taxes	\$6,603	\$6,605	\$6,560	\$6,550	\$6,551	\$6,550	\$39,419
14	Total Under/(Over) Recovery	\$6,603	\$6,605	\$6,560	\$6,550	\$6,551	\$6,550	\$39,419

ES FORM 1.00
 KENTUCKY POWER COMPANY
 ENVIRONMENTAL SURCHARGE REPORT
 CALCULATION OF E(m) AND SURCHARGE FACTOR
 For the Expense Month of -

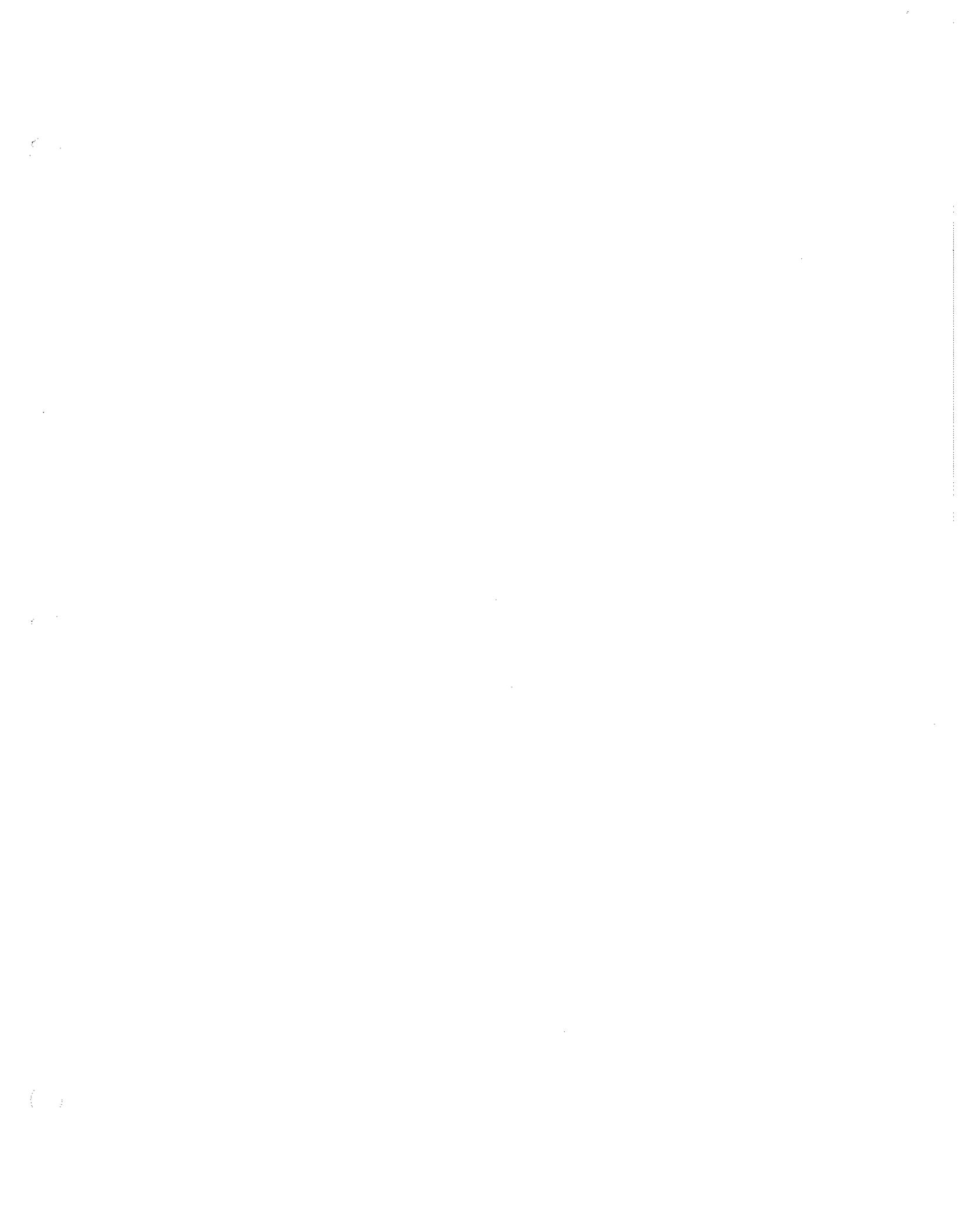
Line No	Description	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005	Total
1	CRR from ES FORM 3.00	\$2,316,299	\$2,757,466	\$2,598,537	\$1,849,006	\$1,268,330	\$1,667,049	
2	Brr from ES Form 2.00	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	
3	E(m) (Line 1 - Line 2)	\$2,300,514	\$2,741,681	\$2,582,752	\$1,833,221	\$1,252,545	\$1,651,264	
	Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of Revenues, Line 1	70.6%	70.2%	61.7%	68.2%	68.6%	63.6%	
4	KY Retail E(m) (Line 3 * Line 4)	\$1,624,163	\$1,924,660	\$1,593,558	\$1,250,257	\$859,246	\$1,050,204	
5	Over/(Under) Recovery Adjustment from ES FORM 3.30	(\$637,515)	\$42,520	\$184,624	\$293,256	\$228,952	\$223,742	
6	January 2004 ES FORM 3.10 - Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	
7A	Net KY Retail E(m) (Line 5 + Line 6)	\$986,648	\$1,967,180	\$1,778,182	\$1,543,513	\$1,088,198	\$1,273,946	
7B	Net KY Retail E(m) (Line 7)	\$986,648	\$1,967,180	\$1,778,182	\$1,543,513	\$1,088,198	\$1,273,946	
8	KY Retail R(m) from ES FORM 3.30	\$36,533,089	\$29,485,503	\$29,204,488	\$27,098,598	\$26,583,929	\$24,364,990	
9	Environmental Surcharge Factor for Expense Month (Line 8 / Line 9)	2.7007%	6.6717%	6.0887%	5.6959%	4.0934%	5.2286%	
10								
11	Revised Net KY Retail E(m) (Line 7B)	\$993,990	\$1,974,453	\$1,788,564	\$1,553,891	\$1,098,576	\$1,284,323	
12	Over/(Under) Recovery (Line 11 - Line 8)	\$7,342	\$7,273	\$10,382	\$10,378	\$10,378	\$10,377	\$56,130
	Detail of Line 12							
13	Monthly Property Taxes	\$7,342	\$7,273	\$10,382	\$10,378	\$10,378	\$10,377	\$56,130
14	Total Under/(Over) Recovery	\$7,342	\$7,273	\$10,382	\$10,378	\$10,378	\$10,377	\$56,130

ES FORM 1.00

KENTUCKY POWER COMPANY
 ENVIRONMENTAL SURCHARGE REPORT
 CALCULATION OF E(m) AND SURCHARGE FACTOR
 For the Expense Month of -

Case No 2002-00169	Case No 2006-00068
Billing Dates September 28 thru October 5, 2005	Billing Dates October 6 thru October 26, 2005

Line No	Description	July	August	August	September	October	November	December	Total	Total
		2005	2005	2005	2005	2005	2005	2005	July to December 2005	May 2001 to December 2005
1	CRR from ES FORM 3.00	\$2,844,388	\$2,736,720	\$2,933,159	\$2,261,347	\$2,396,704	\$2,607,122	\$2,634,872		
2	Brr from ES Form 2.00	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785	\$15,785		
3	E(m) (Line 1 - Line 2)	\$2,828,603	\$2,720,935	\$2,917,374	\$2,245,562	\$2,380,919	\$2,591,337	\$2,619,087		
	Kentucky Retail Jurisdictional Allocation Factor, from ES FORM 3.30, Schedule of									
4	Revenues, Line 1	64.6%	67.7%	67.7%	64.0%	66.2%	67.8%	75.3%		
5	KY Retail E(m) (Line 3 * Line 4)	\$1,827,278	\$1,842,073	\$1,975,062	\$1,437,160	\$1,576,168	\$1,756,926	\$1,972,173		
6	Over/(Under) Recovery Adjustment from ES FORM 3.30	(\$43,922)	(\$246,177)	(\$246,177)	\$14,434	\$208,172	\$208,699	(\$384,343)		
7A	January 2004 ES FORM 3.10 - Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
7B	Net KY Retail E(m) (Line 5 + Line 6)	\$1,783,356	\$1,595,896	\$1,728,885	\$1,451,594	\$1,784,340	\$1,965,625	\$1,587,830		
8	Net KY Retail E(m) (Line 7)	\$1,783,356	\$1,595,896	\$1,728,885	\$1,451,594	\$1,784,340	\$1,965,625	\$1,587,830		
9	KY Retail R(m) from ES FORM 3.30	\$28,766,132	\$30,544,820	\$30,544,820	\$30,377,179	\$28,068,872	\$27,197,901	\$36,184,071		
10	Environmental Surcharge Factor for Expense Month (Line 8 / Line 9)	6.1995%	5.2248%	5.6602%	4.7786%	6.3570%	7.2271%	4.3882%		
11	Revised Net KY Retail E(m) (Line 7B)	\$1,793,733	\$1,598,759	\$1,736,399	\$1,461,847	\$1,794,593	\$1,975,878	\$1,598,082		
12	Over/(Under) Recovery (Line 11 - Line 8)	\$10,377	\$2,863	\$7,514	\$10,253	\$10,253	\$10,253	\$10,252	\$61,765	\$110,756
	Detail of Line 12									
13	Monthly Property Taxes	\$10,377	\$2,863	\$7,514	\$10,253	\$10,253	\$10,253	\$10,252	\$61,765	\$110,756
14	Total Under/(Over) Recovery	\$10,377	\$2,863	\$7,514	\$10,253	\$10,253	\$10,253	\$10,252	\$61,765	\$110,756



Kentucky Power Company

REQUEST

The net gain or loss from sulfur dioxide ("SO₂") and nitrogen oxide ("NO_x") emission allowance sales are reported on ES Form 3.0, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the applicable billing period, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

RESPONSE

We calculate the gain or losses on all allowance sales using this standard formula:

Sales Proceeds - Weighted Average Cost of Allowances Sold - Broker Fees + or - Option Premiums = Net Gain or Loss.

The gains or losses are as a result of selling SO₂ or NO_x allowances from our compliance inventory to external counterparties.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

The SO2 emission allowance inventory is reported on ES Form 3.11, SO2 Emission Allowance Inventory (prior to the March 2003 expense month, ES Form 3.12, Emission Allowance Inventory). The most frequent addition to the SO2 emission allowance inventory is classified as "Other" on ES Form 3.11. For each of the applicable billing periods under review:

- a. Describe the types of transactions reported in the Other category.
- b. Explain why Kentucky Power acquired these additional allowances.
- c. Explain how the price per allowance for this category of emissions allowance is determined.

RESPONSE

- a. The "Other" category includes purchases of SO2 and NOx allowances from external counterparties.
- b. Purchases are made to meet forecasted consumption needs.
- c. The price per allowance represents the purchase price per the purchase agreement, plus any brokerage fees paid.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Provide the percentage of Kentucky Power's long-term debt that has a variable interest rate as of the last expense month in the applicable billing period under review.

RESPONSE

None of Kentucky Power's long-term debt currently has variable. However, the company has entered into one interest rate swap from fixed to floating interest rate for \$50 million, and including this as variable rate debt would increase the percentage of KP's long-term debt with a variable interest rate from 0 to 10.25%.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Included in the environmental costs reported on ES Form 3.10, Costs Associated with Big Sandy, are property taxes. Explain the reason(s) for the fluctuations in the property taxes during the seven review periods.

RESPONSE

Fluctuations in property taxes during the seven review periods resulted from either incorrectly estimated property tax rate factors, or changes in the installed cost of environmental facilities at Big Sandy Plant.

There are three property tax rate factors used in calculating the estimated monthly property tax amount. The factors used for any year are based on the prior year's assessment for property taxes purposes at Big Sandy Plant. The first factor is the Net Book Value (NBV) factor. The NBV factor is the percentage the Net Book Value (generation plant cost minus generation plant accumulated depreciation) is of the Generation Plant Cost. A second factor is the Manufacturing Machinery Assessment Factor. The Manufacturing Machinery Assessment Factor is determined by dividing the Net Book Plant by the Assessed Generation Plant Value. The Assessed Generation Plant Value is the assessed value of the generating plant for property tax purposes of the prior year. The third factor is the Property Tax Rate for Big Sandy Plant.

Page 6 of 10 of this response demonstrates how the NBV factor is calculated for Years 2000 to 2004. This schedule includes Total Generating Plant less Accumulated Depreciation equaling Net Book Value (NBV). The NBV is divided by the Generating Plant Cost to determine the NBV factor.

The prior year December balance of the Utility Plant at Original Cost from ES FORM 3.10 I supposed to be the investment amount used at the Installed Cost at Big Sandy Plant in calculating the estimated property tax amount. In this review it was discovered that the current month balance of the Utility Plant at Original Cost was being used as the Installed Cost at Big Sandy Plant instead of the prior year December balance in calculating the estimated property tax amount.

Below is an explanation by review period as to either why there were fluctuations in the estimated monthly property tax amounts or any proposed adjustments. Pages 7 to 10 of 10 of this response demonstrates the estimated monthly property tax calculated amounts and any revised calculations and adjustments.

Review Period from July 2001 to December 2001

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.48495 and the correct NBV factor should have been 0.449596.

The Manufacturing Machinery Assessment Factor and Property Tax Rate is correct.

The Installed Cost at Big Sandy Plant amount of \$15,916,876 used in calculating the estimated property tax amount is correct.

The property tax amount adjustment for this review period is (\$552).

Review Period from January 2002 to June 2002

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.48495 from January to April 2002 and 0.50987 from May to June 2002, and the correct NBV factor should have been 0.415918.

Also, the Manufacturing Machinery Assessment Factor of 0.9822432 for month January to April 2002 is incorrect and should have been 0.9945253. May and June 2002 Manufacturing Machinery Assessment Factor are correct.

The Property Tax Rate is correct.

The Installed Cost at Big Sandy Plant amount of \$15,916,876 (balance as of December 2001) used in calculating the estimated property tax amount is correct.

The property tax amount adjustment for this review period is (\$1,116).

Review Period from July 2002 to December 2002

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.50987 from July to December 2002, and the correct NBV factor should have been 0.415918.

The Manufacturing Machinery Assessment Factor and Property Tax Rate are correct.

The Installed Cost at Big Sandy Plant amount of \$15,916,876 (balance as of December 2001) used in calculating the estimated property tax amount is correct.

The property tax amount adjustment for this review period is (\$1,116).

Review Period from January 2003 to June 2003

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.50987 for January 2003 and 0.36537 for February to June 2003, and the correct NBV factor should have been 0.391037.

Also, the Manufacturing Machinery Assessment Factor of 0.9945253 for month January 2003 is incorrect and should have been 0.8961572. The Manufacturing Machinery Assessment Factor from February to June 2003 are correct.

The Property Tax Rate is correct.

The Installed Cost at Big Sandy Plant amount of \$15,916,876 (balance as of December 2002) should have been used for this review period (January to June 2003) instead of the fluctuating monthly Installed Cost at Big Sandy Plant amounts from March to June 2003.

The property tax amount adjustment for this review period is (\$20,607).

Review Period from July 2003 to December 2003

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.36537 from July to December 2003, and the correct NBV factor should have been 0.391037.

The Manufacturing Machinery Assessment Factor and Property Tax Rate are correct.

The Installed Cost at Big Sandy Plant amount of \$15,916,876 (balance as of December 2002) should have been used for this review period (July to December 2003) instead of the fluctuating monthly Installed Cost at Big Sandy Plant amounts from July to December 2003.

The property tax amount adjustment for this review period is (\$62,875).

Review Period from January 2004 to June 2004

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.36537 for January 2004 and 0.366123 for February to June 2004, and the correct NBV factor should have been 0.678151. In Year 2003, there was substantial investment at Big Sandy Plant due to the installation a SCR and related projects. This is the reason the NBV factor of 0.678151 is much larger than the NBV factor of 0.391037 for the previous year.

The Manufacturing Machinery Assessment Factor and Property Tax Rate are correct.

The Installed Cost at Big Sandy Plant amount of \$187,009,776 (balance as of December 2003) should have been used for this review period (January to June 2004) instead of the fluctuating monthly Installed Cost at Big Sandy Plant amounts from January to June 2004.

The property tax amount adjustment for this review period is \$39,708.

Review Period from July 2004 to December 2004

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.366123 for July to December 2004, and the correct NBV factor should have been 0.678151. In Year 2003, there was substantial investment at Big Sandy Plant due to the SCR and related projects. This is the reason the NBV factor of 0.678151 is much larger than the NBV factor of 0.391037 for the previous year.

The Manufacturing Machinery Assessment Factor and Property Tax Rate are correct.

The Installed Cost at Big Sandy Plant amount of \$187,009,776 (balance as of December 2003) should have been used for this review period (July to December 2004) instead of the fluctuating monthly Installed Cost at Big Sandy Plant amounts from July to December 2004.

The property tax amount adjustment for this review period is \$39,419.

Review Period from January 2005 to June 2005

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.366123 for January to February 2005 and 0.336370 for March to June 2004, and the correct NBV factor should have been 0.659097.

The Manufacturing Machinery Assessment Factor was also incorrect. The factor used was 0.9071 for January to February 2005 and 0.6613 for March to June 2005. The correct factor should have been 0.979188.

The Property Tax Rate used was correct.

The Installed Cost at Big Sandy Plant amount of \$187,496,762 (balance as of December 2004) should have been used for this review period (January to June 2005) instead of the fluctuating monthly Installed Cost at Big Sandy Plant amounts from January to June 2005.

The property tax amount adjustment for this review period is \$56,130.

Review Period from July 2005 to December 2005

It was determined that the NBV factor for this review period was incorrect. The NBV that was used was 0.336370 for July to December 2005, and the correct NBV factor should have been 0.659097.

The Manufacturing Machinery Assessment Factor was also incorrect. The factor used was 0.6613 for July to December 2005. The correct factor should have been 0.979188.

The Property Tax Rate used was correct.

The Installed Cost at Big Sandy Plant amount of \$187,496,762 (balance as of December 2004) should have been used for this review period (July to December 2005) instead of the fluctuating monthly Installed Cost at Big Sandy Plant amounts from July to December 2005.

The property tax amount adjustment for this review period is \$61,765.

Summary of Review Period from July 2001 to December 2005

The total property tax adjustment for the review period July 2001 through December, 2005 is \$110,756.

WITNESS: Errol K. Wagner

Kentucky Power Company
 Schedule of Net Book Value (NBV) Factors

Year Ending (1)	Generation Plant Cost (2)	Accumulated Depreciation (3)	Net Book Value (4)	NBV Factor (5)
			(C2 - C3 = C4)	(C4 / C2 = C5)
12/31/2000	231,901,590.68	127,639,501.59	104,262,089.09	0.449596
12/31/2001	232,445,363.78	135,767,122.36	96,678,241.42	0.415918
12/31/2002	236,496,255.50	144,017,445.26	92,478,810.24	0.391037
12/31/2003	412,755,195.46	132,844,893.72	279,910,301.74	0.678151
12/31/2004	417,839,232.30	142,442,546.55	275,396,685.75	0.659097

KENTUCKY POWER COMPANY
 ES FORM 3.10
 PROPERTY TAX CALCULATION

Line No.	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005	July 2005	August 2005	September 2005	October 2005	November 2005	December 2005	Total Revised Property Tax Amount	
Monthly Calculation - Schedule 3.10														
1	Installed Cost Big Sandy Plant	\$187,496,762	\$189,034,829	\$189,039,418	\$189,039,418	\$189,140,122	\$189,168,203	\$189,168,203	\$189,168,206	\$190,656,197	\$190,656,197	\$190,656,197	\$190,656,197	
2	Net Book Factor	0.366123	0.366123	0.336370	0.336370	0.336370	0.336370	0.336370	0.336370	0.336370	0.336370	0.336370	0.336370	
3	Net Book Value Manufacturing Machinery	\$68,646,877	\$69,209,999	\$63,587,189	\$63,587,189	\$63,621,063	\$63,630,508	\$63,630,508	\$63,630,509	\$64,131,025	\$64,131,025	\$64,131,025	\$64,131,025	
4	Assessment Factor	0.9071	0.9071	0.6613	0.6613	0.6613	0.6613	0.6613	0.6613	0.6613	0.6613	0.6613	0.6613	
5	Assessed Value	\$62,269,582	\$62,780,390	\$42,050,208	\$42,050,208	\$42,072,609	\$42,078,855	\$42,078,855	\$42,078,856	\$42,409,847	\$42,409,847	\$42,409,847	\$42,409,847	
6	Property Tax Rate	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	
7	Annual Property Tax Amount	\$93,404	\$94,171	\$63,075	\$63,075	\$63,109	\$63,118	\$63,118	\$63,118	\$63,615	\$63,615	\$63,615	\$63,615	
8	Monthly Property Tax	\$7,784	\$7,848	\$5,258	\$5,258	\$5,259	\$5,260	\$5,260	\$5,260	\$5,301	\$5,301	\$5,301	\$5,301	
Monthly Property Taxes Filed - ES FORM 3.10														
9	Monthly Property Taxes	\$7,784	\$7,853	\$4,744	\$4,748	\$4,748	\$4,749	\$4,749	\$4,749	\$4,873	\$4,873	\$4,873	\$4,872	
10	Total Estimated Property Taxes For Year												\$63,815	
CORRECTED CALCULATION - Schedule 3.10														
12	Installed Cost Big Sandy Plant	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	\$187,496,762	
13	Net Book Factor	0.659097	0.659097	0.659097	0.659097	0.659097	0.659097	0.659097	0.659097	0.659097	0.659097	0.659097	0.659097	
14	Net Book Value Manufacturing Machinery	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	\$123,578,553	
15	Assessment Factor	0.979188	0.979188	0.979188	0.979188	0.979188	0.979188	0.979188	0.979188	0.979188	0.979188	0.979188	0.979188	
16	Assessed Value	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	\$121,006,636	
17	Property Tax Rate	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	0.0015	
18	Annual Property Tax Amount	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	\$181,510	
19	Monthly Property Tax	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	
REVISED Monthly Property Taxes Filed - ES FORM 3.10														
20	Monthly Property Taxes	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,126	\$15,124	
21	Total Estimated Property Taxes For Year												\$181,510	
22	Monthly Property Tax Adjustment	\$7,342	\$7,273	\$10,382	\$10,378	\$10,378	\$10,377	\$10,377	\$10,377	\$10,253	\$10,253	\$10,253	\$10,252	
23	REVISED Total Estimated Property Taxes For Year												\$117,896	\$110,756

Kentucky Power Company

REQUEST

Billing Period from July 1, 2001 through June 30, 2003

Refer to ES Form 3.10, Cost Associated with Big Sandy, for the December 2002 expense month. Explain the reason(s) for the increases in the Gavin scrubber costs reported for the December 2002 expense month.

RESPONSE

The reason for the increased Gavin Scrubber Costs in December 2002 was due to the Gavin Lease Costs.

The lease of the Gavin scrubber is treated as an operating lease on Ohio Power Company's financial statements. In accordance with SFAS 13 "Accounting for leases" the lease payments must be straight-lined over the term of the agreement. However, the lease payments are impacted by several variables, including changes in the floating interest rate of a portion of the lease financing obligations. Therefore, the straight-line rent calculation is based on actual payments made as well as estimates (provided by Merrill Lynch) for future payments. Historically, the estimates have turned out to be less than the actual payments. Annually, in December of each year, the straight-line rent calculation is updated for actual payments made during the year and any new estimates for future years.

In December 2002, the lease expense of \$11.4 million included an adjustment of approximately \$3.1 million related to actual payments made for rent in 2002, which were \$3.1 million higher than the estimates used in the previous year. Additionally, an adjustment of approximately \$3.5 million was recorded which reversed the effect of a favorable December 2001 adjustment, related to the timing of a prepaid lease payment.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to ES Form 3.12, Emission Allowance Inventory, for the December 2002 and February 2003 expense months and ES Form. 3.11, SO2 Emission Allowance Inventory, for the April 2003 expense month.

- a. Describe the type of transaction reported as "Withdrawals-Intercompany Sales."
- b. Explain how the sales price per allowance was determined for these sales.

RESPONSE

December 2002

- a) These sales of 13,462 allowances were required under the Interim Allowance Agreement.- Modification No. 1, Section 4.5, which states that each member will own a share of the AEP System Allowance Bank based on it's current member load ratio.
- b) These sales were priced at the system cost of compliance for 2002 of \$233.08 per allowance as required by the Interim Allowance Agreement.

February 2003

- a) These sales of 1,482 allowances were sales to non-affiliates and had been shown on the ES Form 3.12 as intercompany sales when they should have been reported under off-system sales.
- b) These non-affiliate sales were priced at market.

April 2003

- a) These sales of 352 allowances were sales to non-affiliates and had been shown on the ES Form 3.12 as intercompany sales when they should have been reported under off-system sales.
- b) These non-affiliate sales were priced at market.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Billing Period from July 1, 2003 through December 31, 2003

Refer to ES Form 3.11, SO2 Emission Allowance Inventory, for the May 2003 through August 2003 expense months.

- a. Describe the type of transaction reported as "Withdrawals-Intercompany Sales."
- b. Explain how the sales price per allowance was determined for these sales.

RESPONSE

a) All of the sales from May 2003 through August 2003 were sales to non-affiliates which had been shown on the ES Form 3.12 as intercompany sales when they should have been reported under off system sales.

b) These non-affiliate sales were priced at market.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Billing Period from January 1, 2004 through June 30, 2004

Refer to ES Form 3.11, SO2 Emission Allowance Inventory, for the December 2003 expense month.

- a. Describe the type of transaction reported as "Withdrawals-Intercompany Sales."
- b. Explain how the sales price per allowance was determined for these sales.

RESPONSE

- a) These sales of 9,629 allowances were required under the Interim Allowance Agreement - Modification No. 1 under sections 4.2 and 4.5. Under Section 4.2 allowances are transferred among members associated with primary energy transactions. Under Section 4.5 each member must own a share of the AEP System Allowance Bank based on its current member load ratio.
- b) The sales under section 4.2 are based on KPCo's average allowance inventory cost of \$76.95, as required by the Interim Allowance Agreement. The sales under Section 4.5 were priced at the system cost of compliance for 2003 of \$257.69 as required by the Interim Allowance Agreement.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to ES Form 3.11, SO2 Emission Allowance Inventory, for the March 2004 expense month. Explain why Kentucky Power's utilization of SO2 emission allowances in this expense month was so much lower than other months in this billing period.

RESPONSE

It was discovered that the allowance management system had overstated consumption of SO2 allowances by 16,832 tons for the 1st quarter; the correction of \$200,694.81 was made in this month. This correction had no effect on average unit cost.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Billing Period from July 1, 2004 through December 31, 2004

Refer to ES Form 3.14, Gavin Scrubber Costs, for the June 2004 and October 2004 expense months. Explain why lime costs were higher in these months as compared to the other months in the billing period.

RESPONSE

Gavin Scrubber Costs - June 2004

The Lime Costs for the Gavin Scrubber Costs for the month of June 2004 was higher than other months because the costs in June 2004 erroneously included not only Lime Costs but also Urea and Trona Costs. The June 2004 Lime Costs included \$2,823,265 of Lime, \$721,090 of Urea and \$435,519 for a total of \$3,979,874. June 2004 Lime Costs should have only been \$2,823,265.

This was also true for the months from January 2004 to May 2004 on ES FORM 3.14. In July 2004, there was an adjustment made to correct the January to June 2004 ES FORM 3.14 Lime Costs. Please see Page 2 of 2 of this answer for the summary of Lime Costs for the months January to July 2004 and adjustment for the Urea and Trona Costs.

Gavin Scrubber Costs - October 2004

The Lime Costs in September 2004 did not include all charges because the beginning inventory balance was over-stated. The overstatement was discovered in October 2004 and an adjustment was made. The average for the two months of September and October 2004 is \$2,656,867.

WITNESS: Errol K Wagner

Kentucky Power Company
 Lime Costs - Gavin Scrubber Costs
 For The Period January 2004 to July 2004

Line No.	Account No.	Account Description	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004	Subtotal	July 2004	Total
1	5020001	Lime Expense	2,299,286.55	2,994,513.60	2,292,260.46	1,233,628.88	2,469,759.57	2,823,265.46	14,112,714.52	2,812,569.80	16,925,284.32
2	5020002	Urea Expense	0.00	0.00	823.46	11,914.62	295,254.66	721,090.16	1,029,082.90	(1,029,082.90)	0.00
3	5020003	Trona Expense	99,000.00	61,471.00	86,124.18	77,360.62	338,180.76	435,518.53	1,097,655.09	(1,097,655.09)	0.00
4		Total Lime Costs	2,398,286.55	3,055,984.60	2,379,208.10	1,322,904.12	3,103,194.99	3,979,874.15	16,239,452.51	685,831.81	16,925,284.32

Kentucky Power Company

REQUEST

Billing Period from July 1, 2003 through June 30, 2005

Refer to ES Form 3.11 SO2 Emission Allowance Inventory, for the January 2005 expense month. Explain why Kentucky Power's utilization of SO2 emission allowances in this expense month was so much lower than other months in this billing period.

RESPONSE

There was a CEMS reporting error of January consumption. The understated emissions from January were corrected in February business.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

In Case No. 1996-00489, The Commission ordered that Kentucky Power's rate of return on common equity for the environmental surcharge would be reviewed for reasonableness during the 2-year review case. In Case No. 2005-00341, the approved Settlement Agreement provided that Kentucky Power would utilize a 10.5 percent rate of return on common equity.

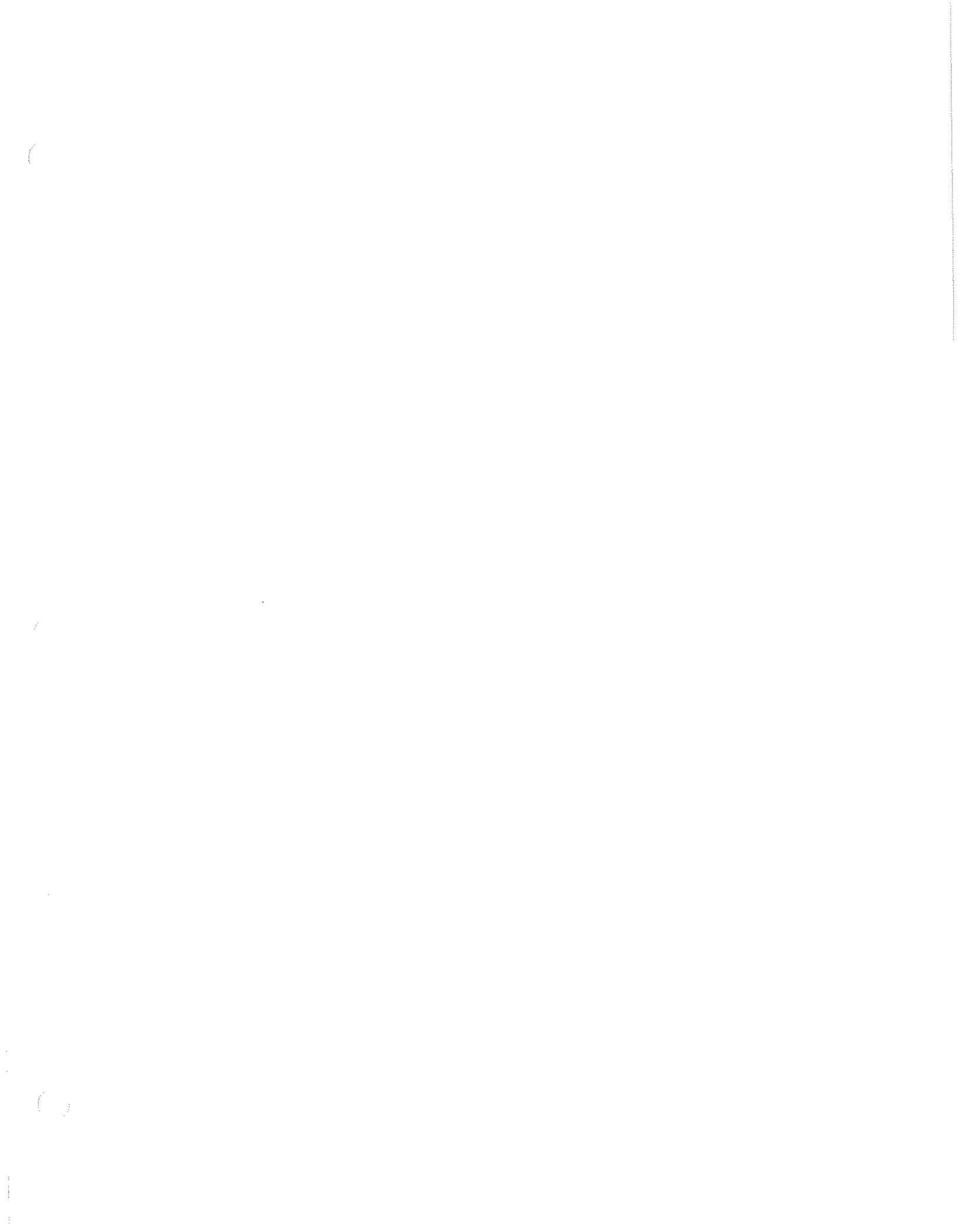
- a. Does Kentucky Power believe that the 10.5 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting it conclusions.
- b. If no to part (a), what rate of return on common equity does Kentucky Power propose for its environmental surcharge? Provide a detailed analysis and testimony supporting Kentucky Power's position.

RESPONSE

- a. Yes. KPC believes the 10.5 percent rate of return on common equity to be reasonable for this proceeding.

Based on testimony submitted on September 26, 2005 in KPCo's application to increase base rates, Mr. Paul Moul estimates a range of return on equity of 11.12% to 13.55% depending on the variables and the methodology utilized. However, Kentucky Power acknowledges that the Company has agreed to a return on equity of 10.5% in 2006 for Case No. 2005-00341 and would consider that level to be reasonable for establishing rates for the environmental surcharge review. The Company is not aware of any market changes since the Order in Case No. 2006-00341 which would materially effect the cost of equity.

WITNESS: Errol K Wagner



Kentucky Power Company

REQUEST

KRS 278.183(3) provides that during the 2-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. In Case No. 2005-00341, the approved Settlement Agreement provided that \$28,106,683 from the environmental surcharge was incorporated into Kentucky Power's base rates.

- a. Does Kentucky Power believe any additional surcharge amount need to be incorporated into its base rates in conjunction with this 2-year review?
- b. If yes to part (a), provide the additional surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Explain how the surcharge amount should be incorporated into the base rates. Include all supporting calculations, workpapers, and assumptions as well as any analysis that Kentucky Power believes supports its position.

RESPONSE

- a. No, KPCo does not believe there needs to be any additional environmental surcharge amount incorporated into KPCo's base rates due to the recent Commission's order dated March 14, 2006 in Case No. 2005-00341.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Billing Period July 1, 2005 through December 31, 2005

Refer to ES Form 3.14, Gavin Scrubber Costs, for the May 2005 expense month. Explain why scrubber maintenance costs were lower for May as compared to the scrubber maintenance costs reported for January through August 2005.

RESPONSE

The May 2005 maintenance costs includes a large reversal of a April 2004 Unvoucher Liability in the amount of \$184,000. These dollars were recorded in April 2004 based on a contractor's estimate. The actual May 2004 invoice was for \$182,550.26, but only \$13,947.94 pertained to the Scrubber costs. The remaining amount was charged to Plant Operation and Maintenance.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

In Case No. 1996-00489, the Commission ordered that Kentucky Power's weighted average cost of capital would be reviewed and re-established during the 6-month review case. Provide the following information as of December 31, 2005:

- a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.
- b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.
- c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

RESPONSE

Please see the attached.

WITNESS: Errol K Wagner

KENTUCKY POWER COMPANY
OUTSTANDING BALANCES
AS OF DECEMBER 31, 2005

	<u>Amount Outstanding</u>	<u>Percent</u> %
Long-term Debt	\$ 487,964,000	55.819%
Short-term Debt (1)	<u>\$ 6,040,631</u>	0.691%
Total Debt	\$ 494,004,631	
A/R Factoring	\$ 32,348,353	3.70%
Preferred Stock	\$ -	0.000%
Common Stock	<u>\$ 347,841,406</u>	<u>39.790%</u>
Total	<u>\$ 874,194,390</u>	<u>100%</u>

KENTUCKY POWER COMPANY
 SHORT-TERM DEBT BALANCE
 AND BLENDED INTEREST RATE
 6/30/2005 THROUGH 12/31/2005

<u>As of End of Day (1)</u>	<u>Balance Borrowed</u>	<u>Cost Rate (2)</u> %	<u>Daily Interest Cost (3)</u>
07/08/05	(4,413,062)	3.41%	(418.02)
07/09/05	(4,413,480)	3.41%	(418.05)
07/10/05	(4,413,898)	3.41%	(418.09)
07/11/05	(4,177,095)	3.41%	(395.66)
07/12/05	(4,771,385)	3.36%	(445.33)
07/13/05	(1,893,893)	3.44%	(180.97)
07/14/05	(1,076,842)	3.46%	(103.50)
07/15/05	(4,863,307)	3.45%	(466.07)
07/16/05	(4,863,773)	3.45%	(466.11)
07/17/05	(4,864,240)	3.45%	(466.16)
07/19/05	(3,667,203)	3.53%	(359.59)
07/20/05	(4,967,815)	3.53%	(487.12)
07/21/05	(62,988)	3.53%	(6.18)
07/22/05	(893,800)	3.47%	(86.15)
07/23/05	(893,886)	3.47%	(86.16)
07/24/05	(893,972)	3.47%	(86.17)
07/25/05	(2,522,191)	3.52%	(246.61)
07/26/05	(1,730,222)	3.59%	(172.54)
07/27/05	(572,263)	3.58%	(56.91)
07/28/05	(86,576)	3.58%	(8.61)
08/08/05	(3,990,245)	3.60%	(399.02)
08/09/05	(6,465,570)	3.59%	(644.76)
08/10/05	(4,731,804)	3.60%	(473.18)
08/11/05	(8,342,483)	3.66%	(848.15)
08/12/05	(2,767,596)	3.63%	(279.07)
08/13/05	(2,767,875)	3.63%	(279.09)
08/14/05	(2,768,154)	3.63%	(279.12)
08/15/05	(2,770,808)	3.59%	(276.31)
08/16/05	(1,251,983)	3.65%	(126.94)
08/17/05	(561,902)	3.62%	(56.50)
08/18/05	(1,492,931)	3.67%	(152.20)
08/19/05	(5,346,311)	3.63%	(539.09)
08/20/05	(5,346,850)	3.63%	(539.14)
08/21/05	(5,347,390)	3.63%	(539.20)
08/22/05	(2,091,714)	3.61%	(209.75)
08/23/05	(2,368,778)	3.74%	(246.09)
08/24/05	(3,673,129)	3.74%	(381.60)
08/25/05	(3,937,757)	3.75%	(410.18)
09/13/05	(844,273)	3.82%	(89.59)
09/14/05	(386,535)	3.85%	(41.34)
09/15/05	(4,032,216)	3.83%	(428.98)
10/13/05	(1,126,084)	3.91%	(122.31)
10/20/05	(1,516,275)	3.74%	(157.44)
11/17/05	(4,890,962)	2.68%	(364.17)
12/12/05	(2,097,459)	4.42%	(257.52)
12/15/05	(2,427,542)	4.45%	(300.07)
12/20/05	(1,407,429)	4.41%	(172.41)
12/21/05	(559,180)	4.42%	(68.65)
12/22/05	(1,238,049)	4.41%	(151.66)
12/23/05	(2,084,855)	4.43%	(256.55)
12/24/05	(2,085,111)	4.43%	(256.58)
12/25/05	(2,085,368)	4.43%	(256.62)
12/26/05	(2,085,624)	4.43%	(256.65)
12/27/05	(1,072,202)	4.47%	(133.13)
12/28/05	(1,434,455)	4.38%	(174.53)
12/29/05	(9,964,158)	4.48%	(1,239.98)
12/30/05	(6,039,878)	4.49%	(753.31)
12/31/05	(6,040,631)	4.49%	(753.40)
Average Daily Balance	(974,908)	Total Interest Paid	(18,288)
Annualized Cost Rate			1.8759%

Kentucky Power Company
 Cost of Long-Term Debt
 As of December 31, 2005

Line No.	(1) Description	(2) Interest Rate %	(3) Issue Date	(4) Maturity Date	(5) Term in Years	(6) Principal Outstanding	(7) Principal Amount Issued	(8) Premium or (Discount) at Issuance	(9) Issuance Expense	(10) Cost of Recquired Debt	(11) Net Proceeds (C7 + C8 + C9 + C10)	(12) Effective Cost Rate	(13) Annualized Cost (C8 X C12)
1	Senior Unsecured Notes	6.910	10/11/1997	10/1/2007	10	48,000,000	48,000,000	(300,000)	(63,413)	-	47,636,587	7.017%	3,367,979
2	Senior Unsecured Notes	6.450	11/11/1998	11/1/2008	10	30,000,000	30,000,000	(187,500)	(51,517)	-	29,760,983	6.559%	1,967,807
3	Senior Unsecured Notes	5.500	6/28/2002	7/1/2007	5	125,000,000	125,000,000	(227,500)	(3,525,447)	(168,704)	121,078,349	6.239%	7,798,567
4	Senior Unsecured Notes	5.625	6/13/2003	12/1/2003	29	75,000,000	75,000,000	-	(736,575)	(1,987,889)	72,275,442	5.886%	4,414,415
5	Senior Unsecured Notes	4.315	11/12/2002	11/12/2007	5	80,400,000	80,400,000	-	(1,392,204)	-	79,007,796	4.708%	3,784,843
6	Senior Unsecured Notes	4.368	12/12/2002	12/12/2007	5	69,584,000	69,584,000	-	(1,975,063)	-	67,588,917	5.017%	3,490,096
7	Promissory Notes	6.501	5/15/2001	5/15/2006	5	40,000,000	40,000,000	-	-	-	60,000,000	6.501%	2,600,400
8	Promissory Notes	5.250	2/5/2004	6/1/2015	11	20,000,000	20,000,000	-	-	-	20,000,000	5.249%	1,048,816
9	Total Senior Unsecured Notes					487,984,000	487,984,000	(715,000)	(7,744,239)	(2,156,687)	497,348,074		28,473,923
10	Total Long Term Debt					507,984,000	507,984,000	(715,000)	(7,744,239)	(2,156,687)	497,348,074		28,473,923
11	Total Annual Cost of Long Term Debt												28,473,923
12	Total Principal Outstanding												487,984,000
13	Weighted Average Cost of Long Term Debt (Line 11 / Line 12)												5.84%

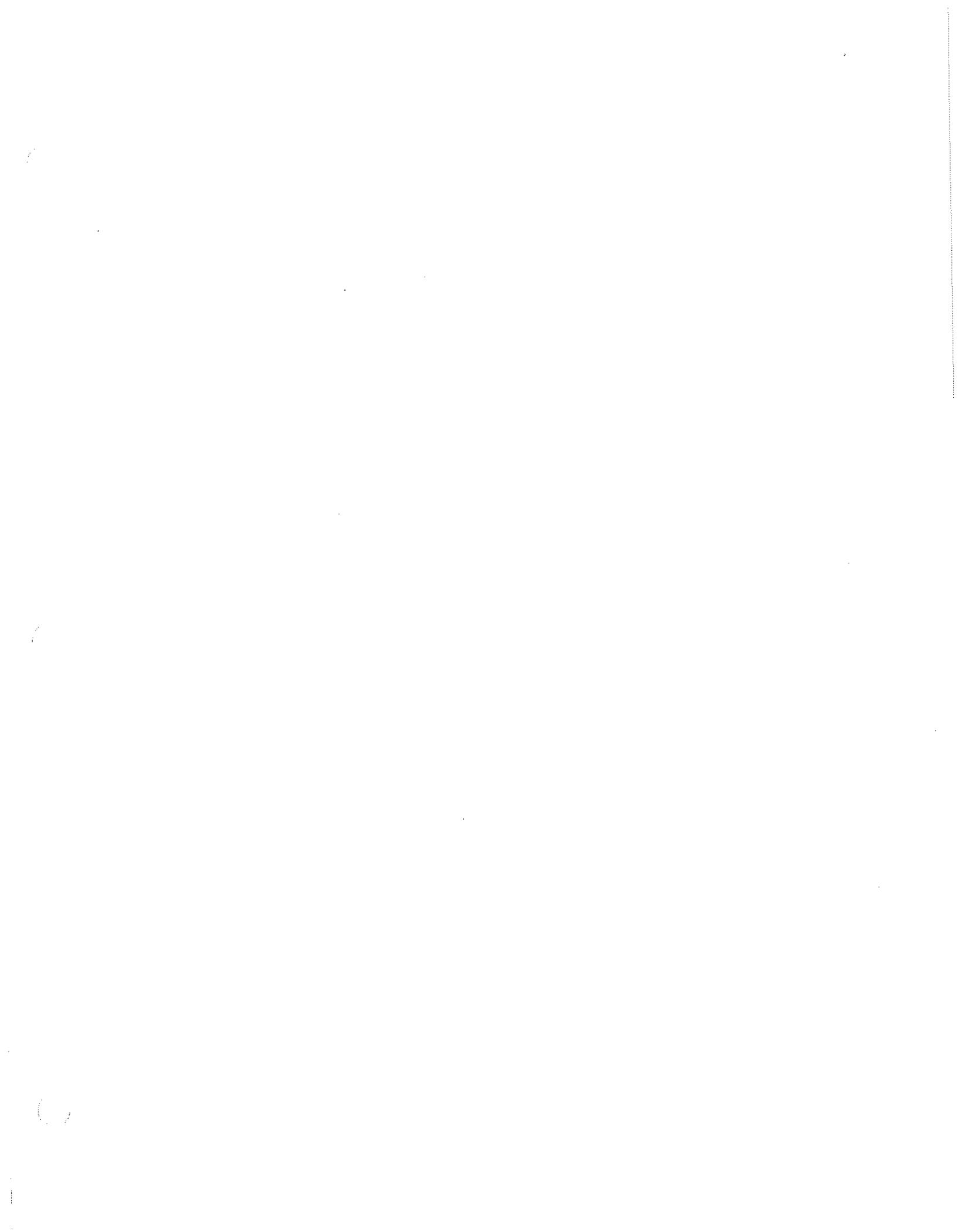
(1) Hedging Gains (Losses) are included in Original Expense
 (2) Includes the Fair Market Value of Interest rate swap

KENTUCKY POWER COMPANY
BALANCE AND COST OF LONG-TERM DEBT
AS OF DECEMBER 31, 2005
13-Month Accounts Receivable Factoring and Cost Rate

	<u>Average A/R Balance</u>	<u>Average Annual Cost of Carry</u>
<u>13 Months Ended December 31, 2005</u>	32,348,352.81	3.8881%

KENTUCKY POWER COMPANY
 WEIGHTED AVERAGE COST OF CAPITAL
 AS OF DECEMBER 31, 2005

	<u>Amount Outstanding</u> (\$000)	<u>Percent</u> %	<u>Cost Rate</u> %	<u>Weighted Return Component</u> %	<u>Balancing Percent Column</u> %
Long-term Debt	\$ 487,964	55.819%	5.835	3.257	55.818706
Short-term Debt	\$ 6,041	0.691%	4.490	0.031	0.690994
Total Debt	\$ 494,005			3.288	
APR Factoring	\$ 32,348	3.70%	3.888	0.144	3.700362
Preferred Stock	\$ -	0.000%		-	-
Common Stock	\$ 347,841	39.790%	10.500	4.178	39.789938
Total	\$ 874,194	100%			100.00000
Overall Cost of Capital				7.610	



Kentucky Power Company

REQUEST

Provide the following information concerning Kentucky Power's inventories of SO₂ and NO_x emission allowances:

- a. The number of emission allowances in the ending inventory balances as of December 31, 2005. the ending inventory balance should reflect all available past vintage years of emission allowances through the 2005 vintage year.
- b. For each year in the period 2006 through 2016.
 - 1) Indicate the number of emission allowances allocated or expected to be allocated by the Environmental Protection Agency for the Big Sandy generating units.
 - 2) Indicated the number of emission allowances estimated to be allocated to Kentucky Power under the Interim Allowance Agreement or other allocation mechanism.
 - 3) Indicated the number of emission allowances Kentucky Power estimates it will utilize in conjunction with the operation of the Big Sandy generating units. Reflect the changes resulting from the adoption of the Clean Air Interstate Rule.
 - 4) If available, indicated any other estimated additions or withdrawals of emission allowances from the Kentucky Power inventories of emission allowances. Include a descriptions the type of addition or withdrawal.

RESPONSE

- a. As of December 31, 2005, Kentucky Power's inventory of emission allowances was 16,929 for SO₂ and 1,600 for NO_x.
- b. Confidential protection of part b of this data request is being requested in the form of a Motion for Confidential Treatment.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Through the end of 2016, does Kentucky Power plan on achieving SO2 and NOx emission limit compliance for the Big Sandy generating units only through the operation of currently in service emission control equipment and the consumption of emission allowances? If no, describe Kentucky Power's current plans for SO2 and NOx emission limit compliance at Big Sandy through the end of 2016.

RESPONSE

Confidential protection of this data request is being requested in the form of a Motion for Confidential Treatment.

WITNESS: Errol K Wagner